

REPORT OF EXAMINATION
OF THE
PERSONAL EXPRESS INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Filed June 2, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:.....	2
Management Agreements	4
Conflict of Interest	5
TERRITORY AND PLAN OF OPERATION	5
REINSURANCE:	5
Assumed	5
Ceded	6
ACCOUNTS AND RECORDS:	10
Information Systems Controls	10
Claims Practices	10
FINANCIAL STATEMENTS:.....	11
Statement of Financial Condition as of December 31, 2009	12
Underwriting and Investment Exhibit for the Year Ended December 31, 2009.....	13
Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009	14
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	15
Losses and Loss Adjustment Expenses	15
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	15
Current Report of Examination	15
Previous Report of Examination.....	15
ACKNOWLEDGMENT	16

San Francisco, California
May 13, 2011

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

PERSONAL EXPRESS INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 31 Upper Ragsdale Drive, Monterey, California 93940.

SCOPE OF EXAMINATION

The previous qualifying examination of the Company was made as of November 17, 2006. This examination covers the period from November 18, 2006 through December 31, 2009. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination conducted concurrently with the examinations of the Company's parent, Sequoia Insurance Company and an affiliate, Sequoia Indemnity Company (Indemnity). An examiner from Nevada Division of Insurance conducted the examination of Indemnity.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

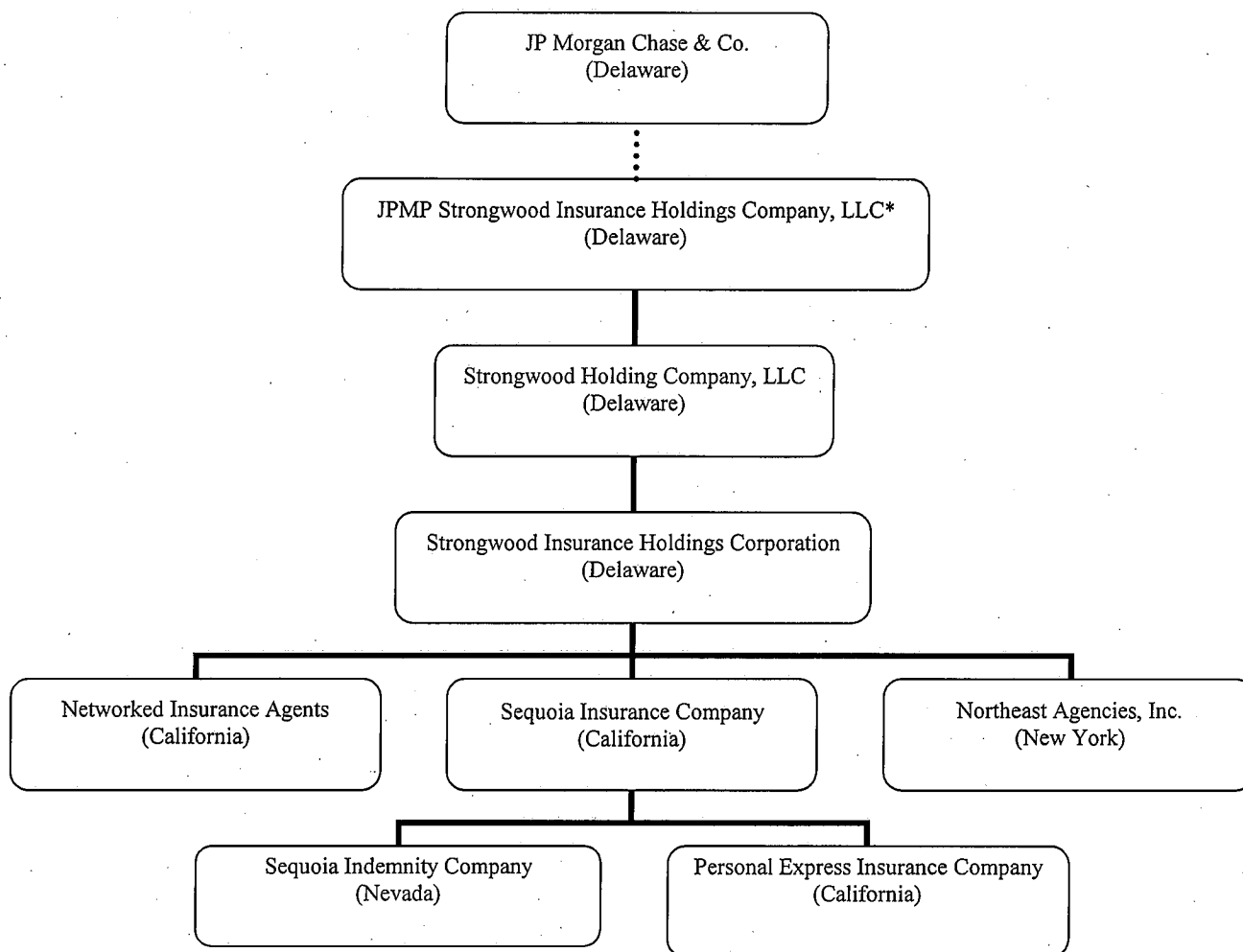
COMPANY HISTORY

The Company was incorporated on April 13, 2005 and received its certificate of authority in late December 2006. The Company began writing insurance coverage on personal lines in 2007. The Company is a subsidiary of Sequoia Insurance Company (Sequoia), which is wholly owned by Strongwood Insurance Holdings Corporation (Strongwood), a Delaware Corporation. In 2007, the Company issued 20,000 shares of common stock at a par value of \$100 per share for a total common capital stock of \$2,000,000.

During 2009, Sequoia contributed 100% of Personal Express Insurance Services, Inc., a California licensed personal lines insurance agency to the Company with a statutory equity value of \$203,401. This contribution was made pursuant to California Insurance Code Section 1215.1 and required no prior approval.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system in which J.P. Morgan Chase & Co, (JPMC) a Delaware corporation, is the ultimate controlling entity. The Company is a wholly-owned subsidiary of Sequoia Insurance Company (Sequoia). The following chart depicts the interrelationship of the companies within the holding company system as of December 31, 2009:



*Ownership is 88.3%. All others are 100%

Management of the Company is under the control of a three-member board of directors, elected annually. The directors and principal officers as of December 31, 2009 were as follow:

Directors

Name and Residence

Michael Hegarty
Briarcliff Manor, New York

Stephen P. Murray
Stamford, Connecticut

Principal Business Affiliation

Retired

President
CCMP Capital Advisors, LLC

Directors (continued)

Richard J. Quagliaroli
West Hartford, Connecticut

Chief Executive Officer and Secretary
Strongwood Insurance Holdings Corporation

Principal Officers

<u>Name</u>	<u>Position</u>
Thomas G. Moylan	President and Chief Operating Officer
Richard J. Quagliaroli	Secretary and Chief Executive Officer
Jeffrey H. Marshall	Vice President and Chief Financial Officer
Joel L. Bethke	Vice President, Underwriting
Carola A. Hogan	Vice President, Claims
David E. Brandeis	Vice President, Chief Information Officer
Richard D. Pagnozzi	Vice President, Chief Actuary
Charles M. O'Halloran	Vice President, Chief Counsel

Management Agreements

Sequoia Insurance Company (Sequoia), its parent, Strongwood Insurance Holdings Corporation, (Strongwood), and affiliates file a consolidated federal income tax return under the provisions of the Tax Sharing Agreement, which was effective March 31, 2003. Each entity is required to compute its tax liability as if it filed a separate federal return. Payment of the consolidated tax liability is the responsibility of Strongwood. The California Department of Insurance (CDI) abstained from objection to this agreement on March 17, 2003. The Company filed with the CDI pursuant to the California Insurance Code (CIC) Section 1215.5(b)(4) to enter into the above Tax Sharing Agreement on May 7, 2007. The filing was approved by the CDI on June 6, 2007.

The Company and its parent, Sequoia, entered into a Services Agreement effective January 9, 2007. Under the terms of the agreement, Sequoia provides investment management, administrative and facilities services to the Company. The administrative services include financial reporting, tax compliance, treasury, actuarial, policy and claims administration and other various services. The

Company pays Sequoia for these services and facilities based on time allocations, expense sharing and actual cost. Under the terms of the agreement, the Company incurred net expenses for the years 2007, 2008, and 2009 totaling \$1,098,766, \$3,342,236, and \$4,710,841, respectively. The CDI approved this agreement on January 9, 2007.

Conflict of Interest

The Company had on file "Officer/Employee Declaration" for its directors, officers, and key employees dated 2007. The Company also had on file "Certification" for its officers and key employees dated 2009, acknowledging receipt of the Company's Code of Business Conduct and Ethics. An annual reporting is not required by the Company for the declaration or the certification. It is recommended that the Company require a written annual conflict of interest reporting for its directors, officers, and key employees.

TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled insurance company which transacts personal property and casualty business only in the State of California, primarily in Kern County. As of December 31, 2009, the Company is only licensed in the State of California and all business is produced on a direct basis. The primary lines of business are personal auto and homeowners, which account for 56% and 39%, respectively, of the \$14,649,937 total direct premiums written in 2009.

REINSURANCE

Assumed

During 2007, the Company entered into quota share reinsurance agreement with its parent, Sequoia Insurance Company (Sequoia). Under the terms of the agreement, the Company agreed to assume 90% of the Sequoia's personal lines business effective January 1, 2007 and after. The Company assumed \$66,679 or 3.2% of gross premiums written in 2009.

Ceded

The Company is included in the reinsurance program of its parent, Sequoia. The following is a summary of the principal reinsurance agreements in effect as of December 31, 2009:

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
First Excess Multiple Line (Property and Casualty)	<u>Authorized:</u> Aspen Insurance UK Limited 25% Axis Reinsurance Company 17% Lloyd's Syndicate # 2003 – Catlin 5% Hannover Ruckversicherungs-Aktiengesellschaft 5% SCOR Reinsurance Company 5% Munich Reinsurance America, Inc. 20% Transatlantic Reinsurance Company 7.5% Moters Insurance Corporation 7.5% <u>Unauthorized:</u> Paris Re 8%	\$500,000	\$1.5 million in excess of \$500,000 subject to a maximum of \$4.5 million per occurrence.
Second Excess Property	<u>Authorized:</u> Aspen Insurance UK Limited - 20% Axis Reinsurance Company - 7% Lloyd's Syndicate # 2003 – Catlin - 9% Endurance Reinsurance Corporation of America - 9% Hannover Ruckversicherungs-Aktiengesellschaft - 20% SCOR Reinsurance Company - 5% Munich Reinsurance America, Inc. - 15% Moters Insurance Corporation - 7% <u>Unauthorized:</u> Paris Re - 8%	\$2 million	\$3 million in excess of \$2 million subject to a maximum of \$9 million per occurrence.
Third Excess Property	Axis Reinsurance Company 15% Lloyd's Syndicate #2001 - 20%	\$5 million	\$5 million in excess of \$5 million subject

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
	Lloyd's Syndicate #2010 - 17.5% Hannover Ruckeverversicherungs- Aktiengesellschaft -15% SCOR Reinsurance Company - 7% Motors Insurance Corporation - 12.5% <u>Unauthorized:</u> Amlin Bermuda Limited - 5% Paris Re - 8%		to a maximum of \$10 million per occurrence.
Fourth Excess Property	<u>Authorized:</u> Axis Reinsurance Company 16% Lloyd's Syndicate #2001 - 20% Endurance Reinsurance Corporation of America - 5% Hannover Ruckeverversicherungs- Aktiengesellschaft 15% SCOR Reinsurance Company - 9% Motors Insurance Corporation - 25% <u>Unauthorized:</u> Amlin Bermuda Limited - 5% Paris Re - 5%	\$10 million	\$5.5 million in excess of \$10 million subject to a per occurrence maximum of \$10 million for Coverage A and \$1 million for Coverage B.
Second Excess Casualty	<u>Authorized:</u> Aspen Insurance UK Limited -10% Axis Reinsurance Company - 15% Hannover Ruckeverversicherungs- Aktiengesellschaft -10% Liberty Mutual 10% SCOR Reinsurance Company - 30% Motors Insurance Corporation - 10% <u>Unauthorized:</u> Paris Re - 15%	\$2 million	\$3 million in excess of \$2 million subject to a maximum of \$3 million per occurrence.
Third Excess Casualty	<u>Authorized:</u> Arch Reinsurance Company - 27.5% Aspen Insurance UK Limited - 10% Axis Reinsurance Company - 10% Hannover Ruckeverversicherungs- Aktiengesellschaft - 7.5% Liberty Mutual Insurance Company - 10% SCOR Reinsurance Company - 5% Motors Insurance Corporation - 5%	\$5 million	\$10 million in excess of \$5 million subject to a maximum of \$10 million per occurrence.

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
	<u>Unauthorized:</u> Catlin Insurance Company, Ltd. - 10% Paris Re - 15%		
Umbrella Quota Share	<u>Authorized:</u> Transatlantic Reinsurance Company (05/01/09 to 05/01/10)	5% of the first \$2 million on personal; and 5% of first \$5 million for other lines.	95% of the first \$2 million on personal; 95% of first \$5 million on other lines, and 100% excess of \$5 million, subject to a loss limit of \$5 million.
Employment Practices Liability Insurance Quota Share	<u>Authorized:</u> Lloyd's Syndicate #0623 Lloyd's Syndicate #2623	None	100% of the Company's Net Liability not to exceed \$1m in the aggregate
First Excess Property Catastrophe	<u>Authorized:</u> Mapfre Re Compania de Reaseguros, S.A. - 13.5% SCOR Reinsurance Company - 6% Lloyd's Syndicate #557 - 3% Lloyd's Syndicate #780 - 8.5% Lloyd's Syndicate #1301 - 6% Lloyd's Syndicate #1910 - 9% Lloyd's Syndicate #2001 - 19% Lloyd's Syndicate #4020 - 4% <u>Unauthorized:</u> Amlin Bermuda Limited - 14% Flagstone Reassurance Suisse SA - Bermuda Branch - 10% Glacier Reinsurance AG - 7%	\$2.5 million	\$7.5 million in excess of \$2.5 million subject to a maximum of \$15 million per occurrence.
Second Excess Property Catastrophe	<u>Authorized:</u> Mapfre Re Compania de Reaseguros, S.A. - 13.5% SCOR Reinsurance Company - 2% Lloyd's Syndicate #807 - 2% Lloyd's Syndicate #780 - 7.5% Lloyd's Syndicate #1301 - 4%	\$10 million	\$10 million in excess of \$10 million subject to a maximum per occurrence of \$20 million.

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
	Lloyd's Syndicate #1910 - 7% Lloyd's Syndicate #2001 - 15% Lloyd's Syndicate #4020 - 1% <u>Unauthorized:</u> Amlin Bermuda Limited - 13% Flagstone Reassurance Suisse SA - Bermuda Branch - 3% Glacier Reinsurance AG - 9% Hannover Re (Bermuda), Ltd. - 4% Tokio Millenium Re Ltd. - 19%		
Third Excess Property Catastrophe	<u>Authorized:</u> Mapfre Re Compania de Reasegueros, S.A. - 11% SCOR Reinsurance Company - 8% Lloyd's Syndicate #1910 - 9% Lloyd's Syndicate #2001 - 20% Lloyd's Syndicate #4020 - 6% <u>Unauthorized:</u> Amlin Bermuda Limited - 14% Glacier Reinsurance AG - 9% Hannover Re (Bermuda), Ltd. - 4% Tokio Millenium Re Ltd. - 19%	\$20 million	\$25 million in excess of \$20 million subject to a maximum of \$50 million per occurrence.
Fourth Excess Property Catastrophe	<u>Authorized:</u> Mapfre Re Compania de Reasegueros, S.A. - 4% Lloyd's Syndicate #0780 - 7% Lloyd's Syndicate #0807 - 7.5% Lloyd's Syndicate #1414 - 20% Lloyd's Syndicate #2001 - 17% Lloyd's Syndicate #4444 - 10% Munich Reinsurance America - 15% SCOR Switzerland UK Branch - 8% <u>Unauthorized:</u> Amlin Bermuda Limited - 8% Lancashire Insurance Bermuda - 3.5%	\$45 million	\$37.5 million in excess of \$45 million subject to a maximum of \$82.5 million per term.
Fifth Excess Property Catastrophe	<u>Authorized:</u> Mapfre Re Compania de Reasegueros, S.A. - 8% <u>Unauthorized:</u> Lancashire Insurance Bermuda - 12%	\$82.5 million	\$12.5 million in excess of \$82.5 million subject to a maximum of \$95 million per term.

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
	Tokio Millenium – 80%		

ACCOUNTS AND RECORDS

Information Systems Controls

A review was made of the Company's general controls over its information systems. As a result of the review, some low risk control deficiencies were noted in areas such as business continuity planning. The control deficiencies noted were presented to the Company along with recommendations to strengthen its controls in these areas. It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Claims Practices

The Company utilizes a depreciation schedule for its property and contents losses which is not in compliance with California Code of Regulation (CCR), Title 10, Chapter 5, Subchapter 7.5, Article 1, Section 2695.9 (f) because it does not take into consideration both the age and condition of the item being depreciated. The depreciation schedule currently used by the Company is based solely on the age of the item. It is recommended the Company comply with CCR Title 10, Section 2695.9 (f).

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2006
through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 16,493,888	\$	\$ 16,493,888	
Common stocks	242,183		242,183	
Cash and short-term investments	2,860,329		2,860,329	
Investment income due and accrued	149,810		149,810	
Premiums and agents' balances in course of collection	195,495	959	194,536	
Premiums, agents' balances and installments booked but deferred and not yet due	3,302,158		3,302,158	
Other amounts receivable under reinsurance contracts	141,327		141,327	
Current federal and foreign income tax recoverable	334,277		334,277	
Net deferred tax asset	747,178	36,625	710,553	
Aggregate write-ins for other than invested assets	<u>5,158</u>	<u>2,500</u>	<u>2,658</u>	
Total assets	<u>\$ 24,471,803</u>	<u>\$ 40,084</u>	<u>\$ 24,431,719</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 2,429,379	(1)
Reinsurance payable on paid loss and loss adjustment expenses			230,155	
Loss adjustment expenses			573,163	(1)
Commissions payable, contingent commissions and other similar charges			21,368	
Other expenses			182,025	
Unearned premiums			8,156,803	
Advance premiums			183,672	
Ceded reinsurance premiums payable			179,810	
Funds held by company under reinsurance treaties			950,000	
Payable to parent, subsidiaries and affiliates			<u>467,198</u>	
Total liabilities			13,373,573	
Common capital stock		2,000,000		
Gross paid in and contributed surplus		8,052,136		
Unassigned funds (surplus)		<u>1,006,010</u>		
Surplus as regards policyholders			<u>11,058,146</u>	
Total liabilities, surplus and other funds			<u>\$ 24,431,719</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ 13,517,691
Deductions:		
Losses incurred	\$ 7,160,050	
Loss expenses incurred	878,413	
Other underwriting expenses incurred	<u>3,861,618</u>	
Total underwriting deductions		<u>11,900,081</u>
Net underwriting gain		1,617,610

Investment Income

Net investment income earned	\$ 490,353	
Net realized capital gain	<u>58,647</u>	
Net investment gain		549,000

Other Income

Net loss from agents' or premium balances charged off	\$ (11,677)	
Finance and service charges not included in premiums	<u>233,945</u>	
Total other income		<u>222,268</u>
Net income before federal and foreign income taxes		2,388,878
Federal and foreign income taxes incurred		<u>771,447</u>
Net income		<u>\$ 1,617,431</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 9,365,060
Net income	\$ 1,617,431	
Change in net unrealized capital gains	28,494	
Change in net deferred income tax	21,140	
Change in nonadmitted assets	14,623	
Surplus adjustments: Paid in	<u>11,398</u>	
Change in surplus as regards policyholders for the year		<u>1,693,086</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 11,058,146</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders,
 December 31, 2006, per Examination

\$ 10,094,513

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 233,548	\$
Net unrealized capital gains	22,994	
Change in net deferred income tax	698,124	
Change in nonadmitted assets		2,431
Capital changes: Paid in	2,000,000	
Surplus adjustments: Paid in	<u> </u>	<u>1,988,602</u>
Total gains and losses	<u>\$ 2,954,666</u>	<u>\$ 1,991,033</u>

Net increase in surplus as regards policyholders

963,633

Surplus as regards policyholders,
 December 31, 2009, per Examination

\$ 11,058,146

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2009 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Conflict of Interest (Page 5): It is recommended that the Company require a written annual conflict of interest reporting for its directors, officers and key employees.

Accounts and Records – Information System Controls (Page 10): It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Accounts and Records – Claims Practices (Page 10): It is recommended the Company comply with California Code of Regulations, Title 10, Section 2695.9 (f).

Previous Report of Examination

None

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____
Kyo Chu, CFE
Examiner-In-Charge
Department of Insurance
State of California